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UNCLAS HARARE 000731

SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR AMANDA HILLIGAS
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

1E. O. 12958: N/A

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SUBJECT: Auction Rate Passes Diaspora/Exporter Rate

11. Summary: The most noteworthy new policy announced in Reserve Bank (RBZ) Governor Gideon Gono's second policy statement may last just one week. End Summary.

12. Gono offered unhappy exporters as well as recipients of Diaspora transfers a floor price of Z\$5,200:US\$, a 10 percent bonus to last week's controlled auction rate. In the two ensuing auctions, however, the RBZ has pushed the weighted average to Z\$5,272:US\$, leaving the incentive rate in the dust. While Gono said the new rate could be "reviewed periodically," he has not readjusted it yet. If he leaves it at Z\$5,200:US\$, the most innovative aspect of his speech will have already faded into oblivion.

Comment

13. Comment: Compared to his December 18 address, Gono's speech was poorly-conceived. Buying U.S. dollars for a rate 10 percent higher than its own sell-price meant the RBZ had to cover the difference. On the US\$16 million it auctions each week, the RBZ would have subsidized importers to the tune of US\$1.6 million. As soon as the RBZ did the math, it no doubt decided to boost the auction rate.

14. How sloppy was Gono's statement? When discussing the \$Z5,200:US\$ rate, he said: "To the extent that inflation is expected to decline, our expectations are that this floor price will be reviewed downwards . . ." The RBZ is projecting - optimistically - a reduced inflation rate of 200 percent by year-end, not deflation.

Sullivan